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C O N F I D E N T I A L SECTION 01 OF 03 TEGUCIGALPA 001993

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [ELAB](#) [SOCI](#) [HO](#)

SUBJECT: HONDURAS: IMF WATCHFUL AFTER LIBERAL PARTY
PRESIDENTIAL CANDIDATE'S COMMENTS REGARDING TEACHERS' WAGES

REF: A. A) TEGUCIGALPA 284

[B. B\) TEGUCIGALPA 610](#)

[C. C\) 03 TEGUCIGALPA 2915](#)

Classified By: Economic Chief Patrick Dunn for reasons 1.4 (b) and (d).

[1. \(C\) Summary:](#) Liberal Party presidential candidate Manuel "Mel" Zelaya Rosales recently met with a number of teachers' unions, at which time he pledged his support for the Teachers Wage and Benefits Law (the "estatutos"). This law has led to an unsustainable explosion in public sector wages over the last several years, and has been targeted by the IMF as a necessary reform under Honduras' agreement with the Fund. Liberal Party officials explained to Post that they are well aware of the concern about fiscal impacts and have no intention of breaking faith with the Fund. Nevertheless, they see room to negotiate with teachers and to clean up waste, fraud, and mismanagement within the educational sector. Liberal Party leaders said these actions should free up resources to improve education and pay adequate wages, all while lessening the fiscal burden. The IMF is watching developments closely and is prepared to open a dialogue with the Liberal Party campaign on this issue. In the meantime, it remains in everyone's interest to keep the teachers wage issue -- and the rest of the Poverty Reduction and Growth Facility (PRGF)-- out of the campaign spotlight, since politicizing the agreement with the Fund would make its continuing implementation more difficult for whichever party wins in November. End Summary.

[2. \(U\) On September 22,](#) Liberal Party presidential candidate Manuel "Mel" Zelaya Rosales conducted an extensive dialogue with several prominent teachers' unions to discuss the politically and economically sensitive topic of wages and benefits. Zelaya was quoted in the press as pledging to "strengthen the Teachers Wage and Benefits Law and to make it more effective for the Honduran public and its youth." This law, known as the Estatuto de Docentes, has been the source of much controversy, as it established in 1997 under the Reina Administration (Liberal Party) benefits outside the normal civil service wage scale that increase at multiples of the established increases in minimum wage. The resulting exponential growth in wages has wreaked fiscal havoc, raising total public sector wages from approximately six percent of GDP a few years ago to nearly eleven percent in 2005. One unsustainable consequence is that according to the GOH an estimated 96 percent of the entire Ministry of Education budget is spent on teachers, wages, leaving just 2 percent for the national university (UNAH) and 2 percent for everything else, including books and facilities.

[3. \(C\) As part of its agreement with the International Monetary Fund,](#) the GOH agreed to formulate a plan by 2005 for incorporating these benefits into the normal wage scale, and for implementing that plan by 2007 (ref A). The Poverty Reduction and Growth Facility (PRGF) Performance Criterion on teachers' wages -- requiring the issuance of regulations by December 2004 with compliance by 2007 -- was not met, but there is no fiscal consequence of this for 2005, since no action is required until 2007. Per a 2003 civil service salary law and a 2004 agreement with teachers, the wage-related benefits for teachers (such as additional payments for seniority) should be folded in to their wage scale by 2007. The Fund approved a waiver of this Performance Criterion, but only because they saw the 2005 program in Honduras as "fully financed"; the Fund recognized the extreme political difficulty in passing such regulations in an election year, as well as the significant progress the GOH has made on more pressing fiscal and monetary reforms. That said, the Fund required and obtained a "clear agreement" with the GOH that the regulations will be implemented on time.

[4. \(C\) Previous attempts to control teachers' wages](#) have resulted in prolonged strikes and large protest marches by teachers (see ref C for background). Given the political sensitivity of this issue, as well as its centrality to the fiscal discipline required under the PRGF, IMF Resident Representative Hunter Monroe has expressed concerns to

EconChief about Zelaya's remarks.

15. (C) On September 22, Charge, EconChief, and PolChief met with three leading officials of the Zelaya campaign to discuss the teachers wage issue as well as a variety of political and economic campaign themes (reported septel). Present at the meeting were Party Policy Coordinator Edmundo Orellana, Party Economic Coordinator Edwin Araque, and Campaign Director Hugo Noe Pino. While not denying Zelaya's campaign rhetoric to the teachers, the officials sought to distinguish support for teachers from support for uncontrolled wage increases.

16. (C) According to the officials, the root cause of the political tension between the GOH and teachers has been a combative stance by the Maduro administration and an unwillingness to really listen to the teachers' complaints. For example, Noe said, the teachers complained to Zelaya that there has been no program of continuing education or training of teachers in the last five years. Teachers would welcome training, for example, on how to incorporate computers into the classroom, Noe said. Moreover, Noe said, teachers will be more apt to negotiate with a Liberal government "since it will be more representative of the Honduran people, and not just the economic elites and special interests." He said that the Maduro administration, in contrast, "has spent four years fighting with the teachers without success."

17. (C) Noe -- a former President of the Central Bank of Honduras -- explicitly recognized the fiscal realities. "Continuing the current (wage) situation is not viable," he said. Spending more than 10 percent of GDP on public sector wages is not sustainable. However, he said, the GOH must "respect the estatuto (since) it is the law. It is not viable to eliminate the estatutos." Orellana -- a former judge and Attorney General -- added that because the estatutos are called for in the Constitution, changing them would require a two-thirds vote in one session of Congress and then a ratification of the change in the following session. "It's not so easy as it might appear," he said.

18. (C) Trying to walk a fine line, however, Noe went on to suggest that there is room to negotiate how wages are structured with a view to reducing the fiscal impacts. "The teachers need to be convinced," Noe said, though without elaborating how that could be accomplished.

19. (C) EconChief pointed out that beyond the fiscal impacts, there is also concern that high teachers' wages are crowding other education spending out of the budget. How would the Liberal Party propose to not only control wages, but also to improve delivery of education to the students? Noe said that there is currently a lack of transparency in teachers' wages. It is unclear how many positions are encumbered, by which teachers, and what their total compensation is. There are allegations of fraud, such as ghost workers or workers that work only part time in a number of different jobs. Reforming this system would improve transparency. When coupled with strengthened supervision and control, the result should be a significant increase in available funds to spend on other segments of the education sector, such as infrastructure and books.

110. (C) EconChief discussed this matter and the officials' views with IMF ResRep Monroe. Monroe was somewhat reassured by the explanations offered by the Liberal Party, though he still wishes to see more specificity on how the wage issue will be addressed and its fiscal impacts. Monroe also observed that the primary focus of the performance criterion in the PRGF is not wages per se, but rather the explosive growth in benefits outside of the wage system. It is possible, he said, that the Liberal Party is unaware of this technical distinction, since the most recent IMF Letter of Intent has not been published yet. He suggested that a protracted and contentious battle over wages might not be necessary if the real culprit is benefits, and is considering engaging with the Liberal Party in a discussion of this matter.

111. (C) Comment: At the Fund's request, the major parties and international donors have kept the teachers' wage issue -- and the entire PRGF -- largely out of the campaign (Ref B). It was the Fund's concern that politicizing the PRGF, or any performance criterion in it, would make it that much harder for whichever party wins to implement the necessary reforms. By and large the parties have respected this agreement. Zelaya's remarks can be viewed as campaign pandering to the influential teachers' unions (whose new leadership will be chosen in October-November in the case of three key unions), and his National Party opponent, Porfirio & Pepe8 Lobo, has not been a profile in courage on this issue either. However, Zelaya's comments do not appear to have inflamed passions over this traditionally volatile issue, and it is clear from his advisors that they understand the delicacy of the line they are trying to walk. Similar to the Fund, Post will watch this issue with interest, but will

refrain from any comments that would further raise the profile of this issue. End Comment.

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